

CITY OF EL PASO DE ROBLES

Audit Report

SPECIAL GAS TAX STREET IMPROVEMENT FUND

July 1, 2005, through June 30, 2006

TRAFFIC CONGESTION RELIEF FUND ALLOCATIONS

July 1, 2002, through June 30, 2006



JOHN CHIANG
California State Controller

February 2008



JOHN CHIANG
California State Controller

February 6, 2008

Jennifer Sorenson
Finance Manager
City of El Paso de Robles
1000 Spring Street
Paso Robles, CA 93446

Dear Ms. Sorenson:

The State Controller's Office audited the City of El Paso de Robles' Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—for the period of July 1, 2005, through June 30, 2006. We also audited the Traffic Congestion Relief Fund (TCRF) allocations recorded in the AB 2928 Fund for the period of July 1, 2002, through June 30, 2006.

Our audit disclosed that the city accounted for and expended in compliance with requirements its Special Gas Tax Street Improvement Fund and TCRF allocations recorded in the AB 2928 Fund, and that no adjustments to the funds are required.

If you have any questions, please contact Steven Mar, Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/sk

cc: Grace Kong, Chief
Local Program Accounting
Department of Transportation

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Audit Report

Summary

The State Controller's Office audited the City of El Paso de Robles' Special Gas Tax Street Improvement Fund for the period of July 1, 2005, through June 30, 2006. In addition, we audited Surface Transportation Program (STP) exchange funds in the Special Gas Tax Street Improvement Fund and the Traffic Congestion Relief Fund (TCRF) allocations recorded in the AB 2928 Fund for the period of July 1, 2002, through June 30, 2006.

Our audit disclosed that the city accounted for and expended in compliance with the requirements its Special Gas Tax Street Improvement Fund and TCRF allocations recorded in AB 2928 Fund in compliance with requirements, and that no adjustments to the funds are required.

Background

The State apportions funds monthly from the highway users tax account in the transportation tax fund to cities and counties for the construction, maintenance, and operation of local streets and roads. The highway users taxes derive from state taxes on the sale of motor vehicle fuels. In accordance with Streets and Highways Code section 2101 and Article XIX of the California Constitution, a city must deposit all apportionments of highway users taxes in its Special Gas Tax Street Improvement Fund. A city must expend gas tax funds only for street-related purposes. We conducted our audit of the city's Special Gas Tax Street Improvement Fund under the authority of Government Code section 12410.

The Surface Transportation Program is part of a federal program designed to increase flexibility in federal funding for transportation purposes by shifting the funding responsibility to state and local agencies. The funds are restricted to expenditures made in compliance with Article XIX of the California Constitution and the Streets and Highways Code. The California Department of Transportation (Caltrans) requested that we audit these expenditures to ensure the city's compliance.

Government Code section 14556.5 created a Traffic Congestion Relief Fund in the State Treasury for allocating funds quarterly to cities and counties for street or road maintenance, reconstruction, and storm damage repair. Cities must deposit funds received into the city account designated for the receipt of state funds allocated for transportation purposes. The city recorded its TCRF allocations in the AB 2928 Fund. We conducted our audit of the city's TCRF allocations under the authority of Streets and Highways Code section 2182 for FY 2002-03, and Revenue and Taxation Code section 7104 for fiscal years thereafter.

**Objective, Scope,
and Methodology**

Our audit objective was to determine whether the city accounted for and expended the Special Gas Tax Street Improvement Fund and the TCRF allocations recorded in the AB 2928 Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code. To meet the audit objective, we determined whether the city:

- Properly deposited highway users tax apportionments and other appropriate revenues in the Special Gas Tax Street Improvement Fund;
- Properly deposited TCRF allocations into an account designated for the receipt of state funds allocated for transportation purposes;
- Expended funds exclusively for authorized street-related purposes; and
- Made available unexpended funds for future expenditures.

We conducted our audit according to *Government Auditing Standards*, issued by the Comptroller General of the United States. We did not audit the city's financial statements. We limited our audit scope to planning and performing the audit procedures necessary to obtain reasonable assurance that the city accounted for and expended the Special Gas Tax Street Improvement Fund and the TCRF allocations in the AB 2928 Fund in accordance with the requirements of the Streets and Highways Code and Revenue and Taxation Code. Accordingly, we examined transactions, on a test basis, to determine whether the city expended funds for street purposes. We considered the city's internal controls only to the extent necessary to plan the audit.

Conclusion

Our audit disclosed that the city accounted for and expended its Special Gas Tax Street Improvement Fund—highway users tax and Surface Transportation Program allocations—in compliance with Article XIX of the California Constitution and the Streets and Highways Code for the period of July 1, 2005, through June 30, 2006. Our audit also disclosed that the city accounted for and expended its TCRF allocations recorded in the AB 2928 Fund in compliance with Article XIX of the California Constitution, Streets and Highways Code, and Revenue and Taxation Code for the period of July 1, 2002, through June 30, 2006.

**Follow-Up on Prior
Audit Findings**

Our prior audit report, issued on October 3, 2003, disclosed no findings.

**Views of
Responsible
Official**

We issued a draft audit report on October 5, 2007. Jennifer Sorenson, Finance Director, responded by letter dated December 6, 2007, acknowledging the audit results with explanations. After reviewing the city's response and additional documentation provided, we concur that the city made an accounting error. By correcting the accounting error, the city is in compliance with Streets and Highways Code sections 2182 and 2182.1 and Revenue and Taxation Code section 7104. Therefore, we have reversed our findings. The city's response is included in this final audit report as an attachment.

Restricted Use

This report is intended for the information and use of city management and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD
Chief, Division of Audits

February 6, 2008

**Schedule 1—
Reconciliation of Fund Balance
July 1, 2005, through June 30, 2006**

	<u>Special Gas Tax Street Improvement Fund</u>			Traffic Congestion Relief Fund Allocation ³
	Highway Users Tax Allocation ¹	Surface Transportation Program Allocation ²	Totals	
Beginning fund balance per city	\$ 198,868	\$ —	\$ 198,868	\$ —
Revenues	<u>1,575,908</u>	<u>65,523</u>	<u>1,641,431</u>	<u>126,225</u>
Total funds available	1,774,776	65,523	1,840,299	126,225
Expenditures	<u>(801,688)</u>	<u>(65,523)</u>	<u>(867,211)</u>	<u>—</u>
Ending fund balance per city	973,088	—	973,088	126,225
SCO adjustment	—	—	—	—
Ending fund balance per audit	<u>\$ 973,088</u>	<u>\$ —</u>	<u>\$ 973,088</u>	<u>\$ 126,225</u>

¹ The city receives apportionments from the state highway users tax account, pursuant to Streets and Highways Code sections 2105, 2106, 2107, and 2107.5. The basis of the apportionments for Sections 2105, 2106, and 2107 varies, but the money may be used for any street purpose. Streets and Highways Code section 2107.5 restricts apportionments to administration and engineering expenditures, except for cities with populations of fewer than 10,000 inhabitants. Those cities may use the funds for rights-of-way and for the construction of street systems.

² The city received Surface Transportation Program funds, pursuant to Streets and Highways Code section 182.6. These funds were apportioned to the city by the regional transportation planning agency to be used for transportation projects.

³ Government Code section 14556.5 created a Traffic Congestion Relief Fund (TCRF) in the State Treasury for allocating funds quarterly to cities and counties for street and road maintenance, reconstruction, and storm damage repair. The TCRF allocations were recorded in the AB 2928 Fund. The audit period was July 1, 2002, through June 30, 2006.

Findings and Recommendations

**FINDING 1—
TCRF expenditure
requirement not met**

The city did not expend all of the fiscal year (FY) 2002-03 Traffic Congestion Relief Fund (TCRF) allocations received by June 30, 2004. The unexpended balance totaled \$24,809. As a result, the city did not meet the TCRF's expenditure requirement for FY 2002-03 as required by Streets and Highways Code section 2182(g). Section 2182(g) states that apportionments:

Shall be expended not later than the end of the fiscal year following the fiscal year in which the allocations was made, and any funds not expended within the period shall be returned to the Controller.

Recommendation

The city must return all unexpended Traffic Congestion Relief Program funds received in FY 2002-03 and not expended by June 30, 2004. The amount of unexpended TCRF allocations total \$24,809. Therefore, this amount must be returned to: State Controller's Office, Attention: Bill Byall, P.O. Box 942850, Sacramento, CA 94250.

Additionally, the city should review its TCRF requirements to ensure future compliance with the program.

City's Response

The city has examined their detail transaction reports for those time periods reviewed by the audit and discovered an accounting error. The TCRF funds were deposited to an incorrect revenue account and consequently spent from an incorrect expenditure account.

SCO's Comment

After reviewing the city's response to our draft audit report and additional documentation provided by the city, we concluded that the city made errors. Correction of an accounting error may be made after the error is discovered. The city's correction of the accounting error renders the city in compliance with Streets and Highways Code section 2182(g). The finding is reversed.

**FINDING 2—
Ineligible TCRF
expenditure**

The city did not meet its expenditure requirement during FY 2002-03, as noted in Finding 1. Consequently, the expenditure of these funds totaling \$24,809 was not eligible.

Recommendation

The city must reimburse the TCRF allocations by \$24,809 to eliminate the ineligible expenditures.

City's Response

See the city's response to Finding 1.

SCO's Comment

The city's correction of the accounting error referred to in Finding 1 renders the expenditure eligible. The finding is reversed.

**Attachment—
City's Response to
Draft Audit Report**



CITY OF EL PASO DE ROBLES
"The Pass of the Oaks"

December 6, 2007

Jeffrey V. Brownfield
Chief, Division of Audits
California State Controller's Office
P O Box 942850
Sacramento, CA 94250-5874

This letter is in response to your letter dated October 5, 2007 regarding the State Controller's Office audit of the City of Paso Robles' Special Gas Tax Street Improvement Fund and Traffic Congestion Relief Fund (TCRF).

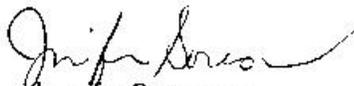
The audit disclosed the city understated the fund balance in its Traffic Congestion Relief Fund (TCRF) allocations, recorded in AB 2928 Fund, by \$24,809 as of June 30, 2006. The audit explained this understatement occurred because the city did not expend all of its fiscal year 2002-03 TCRF allocation within the fiscal year following the fiscal year in which the allocation was made.

The City has examined their detail transaction reports for those time periods reviewed by the audit and discovered an accounting error. The TCRF funds were deposited to an incorrect revenue account and consequently spent from an incorrect expenditure account.

We have prepared a memo journal entry to illustrate how this accounting error is to be corrected, along with corrections to the Annual Street Report for 2003 .

I look forward to hearing from you and can be reached at the phone number listed below or my email address is jsorenson@prcity.com

Sincerely,


Jennifer Sorenson
Finance Manager
805-237-3999

cc: Jim Throop
Street Report file

Department of Administrative Services
1000 Spring Street • Paso Robles • California 93446
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